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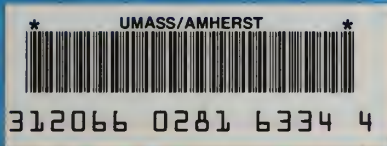


A. JOSEPH DeNUCCI  
AUDITOR

# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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NO. 91-185-1

STATE AUDITOR'S  
REPORT ON THE ACTIVITIES  
OF THE  
WESTFIELD STATE COLLEGE  
JULY 1, 1989 TO JUNE 30, 1990

OFFICIAL AUDIT REPORT

FEB 12 1993

ISSUED BY THE  
Department of the State Auditor

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Our audit of Westfield State College disclosed the following conditions requiring corrective action. Many of the conditions noted can be traced to inadequate or nonexistent internal controls. A strong system of internal controls is necessary to ensure that the Commonwealth's assets are safeguarded, accurate and reliable accounting data are prepared and retained, transactions are processed as intended by management, and operational efficiency is promoted. The college needs to make a thorough review of its internal control policies and procedures. Our recommendations, detailed in the Audit Results section of this report, should be used to help pinpoint areas where new or strengthened internal control policies and procedures should be formulated. Our recommendations also point to areas where the college has established internal control policies but would benefit from stronger compliance with existing policies. In its response the college indicated that the recommendations will be used to improve the system of internal controls. The college also stated that it has made a thorough review of its internal control policies and procedures and has begun to develop new and better internal control policies and procedures.

1. Food Service Concessionaire Contract: Our review of the terms and conditions of the contract between the college and its food service concessionaire indicated that inadequate internal controls over the contract enabled both parties to not comply with certain contractual obligations. The State Comptroller's Internal Control Guide for Departments requires service contract performance to be monitored so that the quality and quantity of services are examined and compared to contractual requirements before payments are made. The lack of adequate internal control procedures resulted in \$1,595.60 in trash disposal costs that were never invoiced to the concessionaire, \$38,658 in overpayments to the concessionaire for meal revenues, the loss of \$606 in commission income, and the loss of \$600 in utility reimbursements to the Commonwealth. We also found that 13 months prior to its expiration the contract was renegotiated and extended for an additional four years without requests for proposals from other food service vendors being solicited. Since the contract was extended without competitive bids being sought, there was no assurance that the college obtained the most

economical and highest-quality food services for its students, faculty, and staff. The college has taken corrective action to implement most of our audit recommendations and has developed a Business Office Project Log that identifies each contractual obligation and assigns responsibility for ensuring compliance with all terms and conditions of the food service contract. The college stated that they are satisfied with the concessionaires performance, however, we emphasize in the future competitive bids should be solicited to ensure that the college receives the best services at an economical price.

2. Miscellaneous Check Exchange Fund: We noted that a lack of adequate internal controls over the operation of the MCEF allowed the following conditions to develop: a \$76,893 variance in the fund developed in prior years (1982-1985) and was not resolved, documents to support the variance were not retained, and Board of Trustee approval was not obtained prior to this variance being written off. The Comptroller's Internal Control Guide for Departments, Section I B, suggests that internal controls be in place to ensure that "recorded accountability for assets is compared to existing assets at reasonable intervals and appropriate action is taken with respect to any difference." Internal controls should also ensure that "access to assets is permitted only in accordance with management's authorization." As a result of the inadequate internal controls, a \$76,893 entry was made to write off the variance without adequate supporting documentation and without Board of Trustee approval. The college in its response indicated that it has sought board authorization for the write-off, implemented several monthly reconciliations, and will retain supporting documents relative to any identified variances. 15
3. Bank Deposits and Transfers: Inadequate internal controls have allowed for delays in making bank deposits and transfers. Such delays are contrary to the policies established by the State Comptroller's Policy Manual Outline and the college's Financial Policies and Procedures Internal Control Document, which require the prompt depositing of revenue. Also, an effective internal control plan would require adequate supervision by management to ensure that policies and procedures are followed. Late bank deposits have delayed the college's and the Commonwealth's use of their funds. Untimely bank transfers have resulted in an estimated loss of \$37,000 in interest income. In response to our recommendations, the college has implemented several new procedures to ensure that proper controls are in place for all cash activities. 17
4. Allocation of Interest Income: Contrary to the college's written Supplemental Trust Fund Policies, which require the proportional allocation of interest to all trust funds, and Chapter 29, Section 34, of the General Laws, which requires 19

the payment of interest on Commonwealth deposits, the college did not equitably or promptly allocate \$275,318 in interest earnings to the Commonwealth and all college funds held on deposit. Inequitable interest allocations have resulted in \$30,011 being excessively credited to the college's General Purpose Trust Fund thereby depriving other college accounts and the Commonwealth of these interest earnings. The college indicated in its response that in April 1990 it implemented an interest allocation program based upon actual daily cash balances and that interest earnings were remitted to the Commonwealth during fiscal year 1991. The college contends that it did not excessively credit any interest to the General Purpose Trust Fund, however, we emphasize that Commonwealth tuition and fees held at the college prior to submission to the Commonwealth should earn interest and be transferred to the Commonwealth.

5. Expenditures of Accounts Payable Funds: Our tests of expenditures from state appropriations disclosed that \$31,125 in fiscal year 1989 accounts payable funds was used to satisfy fiscal year 1990 obligations. These funds should have reverted to the Commonwealth's General Fund. Chapter 164, Section 19, of the Acts of 1989 provides that funds left over and encumbered as of the close of the fiscal year can be used for payment of only that fiscal year's bills. The college indicated in its response that it will take the measures necessary to ensure that all state-appropriated funds are expended according to the State Comptroller's policies and procedures and that all unexpended funds, at the end of the fiscal year, will be reverted to the Commonwealth. 22
6. Entry of Certain Financial Transactions: Our review of internal controls over the entry of data into the Financial Records System (FRS), the college's automated accounting system, indicated that untimely entries were being made to record bank deposit and transfer information (up to a three-week delay) and expenditures from state appropriations (up to a three-month delay). 23

The Comptroller's Internal Control Guide for Departments, Section I B, states that internal accounting controls should provide for the reliability of financial records. As a result of the inadequate internal control over data entry, the college's financial records were not reliable, since they reflected outdated and inaccurate information. In response to our recommendations the college has implemented several procedures to ensure that all transactions are recorded in a timely fashion and that all bank transfers are entered in the FRS.

7. Trust Fund Expenditures: The following issues were disclosed during our review of the college's compliance with its internal control procedures over trust fund expenditures: 25

- o Twenty-eight purchases, totaling \$17,001, did not have funds encumbered prior to payment;
- o Five purchases, totaling \$7,185, did not have evidence of the college's Purchasing Agent's having obtained either a verbal or written price quote; and
- o Nine student board refunds for triple-room occupancy, totaling \$1,846, were not documented or approved.

Section B-10 of the college's Financial Policies and Procedures Internal Control Document requires funds to be encumbered once a financial obligation is incurred and written or verbal price quotes to be obtained for purchases between \$500 and \$2,000. Also, Section C-1 of this document requires approval supporting documents to be used as the basis for payments. Because the college did not comply with these requirements, it lacked control over trust fund expenditures. Since funds were spent without being first encumbered, financial commitments could have been made without sufficient account funding. Without soliciting and keeping on file written or verbal bids, the college cannot be assured that the items were purchased from the lowest-priced qualified vendor. Also, without supporting approval documents for board refunds being kept on file, the college cannot be assured that expenditures were made as management had intended. The college responded to our recommendations by indicating that it would increase monitoring in these areas to ensure full compliance with its internal policies.

8. Student Billing and Receivables System: Contrary to Chapter 75, Section 13, of the General Laws, which requires the college to maintain adequate financial records in a manner consistent with proper accounting procedure, the college's automated student billing and receivables system did not provide a clear audit trail of adjustments made to student receivable balances, 15% of the tuition waiver documents sampled were not adequately supported, detailed student receivables lists could not be located, and student receivables balances of \$144,938 were not integrated with the FRS. As a result, the college had little assurance that the Commonwealth and the college trust funds received all the revenues to which they were entitled. In response to our recommendations, the college indicated that on July 1, 1992 it will implement a new Student Information System that will be fully integrated with the college's FRS and that will produce a daily audit trail report of each transaction. The college added that documentation to support all contractual and financial aid waivers will be maintained and on file.

9. <u>Trust Fund Payroll System</u> : Our review of internal controls for the Trust Fund Payroll System noted instances in which supporting documents were not available to substantiate payments made and revealed that certain Internal Revenue Service (IRS) requirements were not complied with. The Comptroller's Internal Control Guide for Departments, Section II E, states that transactions should be documented to allow for an audit trail. In addition, IRS Form 941E provides guidance on compliance with certain IRS regulations. Because the college did not adhere to these guidelines, it cannot demonstrate the validity of certain payroll payments, the IRS has assessed \$3,163 in deposit and late payment penalties, and certain employees' W-2 wages were incorrectly reported for calendar year 1989. The college indicated in its response that it has implemented a new procedure as of January 1991 that will ensure proper and complete documentation is received for each payroll transaction. Also, the college indicated that it has corrected and issued new wage statements for those that were determined to be incorrect and has identified and resolved all federal withholding variances with the IRS.	28
10. <u>Property and Equipment</u> : The college did not comply with its internal control procedures over property and equipment inventory. Specifically, our review revealed instances in which items were located in locations other than those shown on the inventory list, inventory tags were not affixed, items could not be located, and items did not appear on the inventory list. As a result of this noncompliance, the college's property and equipment was susceptible to theft, misplacement, and misuse. In response to our recommendations, the college indicated that newly written inventory procedures, dated January 29, 1991, are being adhered to, it will attempt to locate all inventory items during its annual inventory process, and it will establish a policy for inventorying items in residence halls purchased with college funds.	31
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STATE HOUSE, BOSTON 02133

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## INDEPENDENT AUDITOR'S REPORT

Dr. Ronald Applbaum, President  
Westfield State College  
Westfield, Massachusetts 01086

We have audited Westfield State College's financial statements for the fiscal year ended June 30, 1990, as listed in the Table of Contents. These financial statements are the responsibility of Westfield State College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

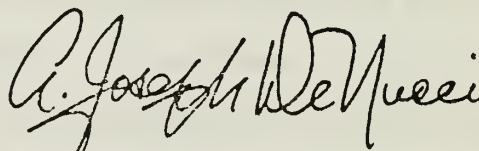
Except as discussed in the fourth paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Notes to Financial Statements, No. 1, Westfield State College's records are maintained on a basis of accounting prescribed by the Commonwealth of Massachusetts, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We did not examine Westfield State College's financial transactions for the period April 1, 1987 to June 30, 1989. (See Supplementary Information, No. 2.)

In our opinion, except for the effects, if any, of the matter referred to in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial activity of Westfield State College for the fiscal year then ended in conformity with the basis of accounting prescribed by the Commonwealth of Massachusetts.

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of the Status of Fiscal Year 1989 Accounts Payable and the Schedule of Federal Funds are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of the Status of Fiscal Year 1989 Accounts Payable has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Schedule of Federal Funds was also subjected to the auditing procedures applied in the examination of the financial statements; however, because we did not test for compliance with applicable federal laws and regulations, we express no opinion on the schedule.



A. JOSEPH DeNUCCI  
Auditor of the Commonwealth

May 13, 1991

## REPORT ON ADEQUACY OF INTERNAL CONTROL SYSTEM

We have examined Westfield State College's financial statements for the fiscal year ended June 30, 1990 and have issued our report thereon dated May 13, 1991. As part of our examination, we made a study and evaluation of the system of internal accounting control of Westfield State College to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Cash
- Revenues and receivables
- Purchasing and receiving
- Cash disbursements and expenditures
- Payroll
- Property and equipment

Our study and evaluation included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on Westfield State College's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of Westfield State College is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of a control system is to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and are recorded properly to permit

the preparation of financial statements in accordance with the Commonwealth's accounting system. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because conditions may change or the degree of compliance with the procedures may deteriorate.

Our study and evaluation, conducted for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on Westfield State College's system of internal accounting control taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Westfield State College may occur and not be detected within a timely period. As is described in the Audit Results section of this report, the college did not have an adequate system of internal controls in place to ensure that the Commonwealth's assets are safeguarded, accurate and reliable accounting data are prepared and retained, transactions are processed as intended by management, and operational efficiency is promoted. These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the June 30, 1990 financial statements, and this report does not affect our report on these financial statements dated May 13, 1991.

This report is intended solely for the use of Westfield State College's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



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## REPORT ON COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

We have audited Westfield State College's financial statements for the fiscal year ended June 30, 1990 and have issued our report thereon dated May 13, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

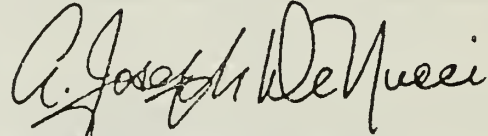
Compliance with laws, regulations, contracts, and grants applicable to Westfield State College is the responsibility of the college's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of college's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Westfield State College complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Westfield State College had not complied, in all material respects, with those provisions.

We did, however, note certain instances of noncompliance that we have reported to the management of Westfield State College in the Audit Results section of this report.

This report is intended for the information of college's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

May 13, 1991



A. JOSEPH DeNUCCI  
Auditor of the Commonwealth

## AUDIT RESULTS

Introduction

Our audit of Westfield State College disclosed several conditions requiring corrective action. Many of the conditions noted can be traced to inadequate or nonexistent internal controls. A strong system of internal controls is necessary to ensure that the Commonwealth's assets are safeguarded, accurate and reliable accounting data are prepared and retained, transactions are processed as intended by management, and operational efficiency is promoted. The college needs to make a thorough review of its internal control policies and procedures. Our recommendations should be used to help pinpoint areas where new or strengthened internal control policies and procedures should be formulated. Our recommendations also point to areas where the college has established internal control policies but would benefit from stronger compliance with existing policies.

Auditee's Response:

Since the audit review, the college has made a thorough review of its internal control policies and procedures. And this review is part of an ongoing process within the administration and finance division of the college. We believe that the audit results section of this report provides recommendations which can improve our system of internal control. And we have already begun developing new and better internal control policies and procedures. We also agree that operational policies and procedures are only effective if they are scrupulously adhered to through the appropriate activities by the responsible campus personnel.

1. Food Service Concessionaire Contract

Our review of the terms and conditions of the contract between the college and its food service concessionaire indicated that (A) inadequate internal controls over the contract enabled both parties to not comply with certain contractual obligations, and (B) 13 months prior to its expiration, the contract was renegotiated and extended for an additional four years without the college's soliciting requests for proposals from other food service vendors.

(A) Inadequate Internal Controls over the Contract: Our review indicated that a lack of adequate internal controls over the food concessionaire contract terms resulted in \$1,595.60 in trash disposal costs never invoiced to the concessionaire, \$38,658 in college overpayments to the concessionaire for meal revenues collected from students, the loss of \$606 in commission income to the college, and the loss of \$600 in utility reimbursements to the Commonwealth.

The State Comptroller's Internal Control Guide for Departments establishes general internal control standards for all departments within the Commonwealth and provides specific objectives and activities to enable departments to meet those standards. The guide states that "before paying you should examine the quantity and quality of the services received and certify contractual performance" and recommends the following specific control activities for the receipt of services:

- o Establish systems to monitor large or lengthy contracts (e.g., progress reports with departmental verification).
- o Designate an individual to verify receipt for services before authorizing payment for the services. These two responsibilities should not be held by the same individual.

Such verification should include:

- clerical accuracy;
  - meeting of contract guidelines;
  - payments made for contracted amounts;
  - payments are for acceptable quality services;
  - payments are made only for services that have already been rendered.
- o Designate an individual to determine that contractual obligations were fulfilled before making the final payment to contractors. To facilitate this, you should use procedures such as performance bonds, percentage of payment held over until approved, etc. to enhance vendor accountability.

We found that the lack of such administrative controls, which are necessary to ensure that all contractual provisions are complied with, enabled

both the college and the food service concessionaire to not comply with the following contractual obligations.

a. The college did not provide us with any documentation indicating that a required \$600 annual utility reimbursement had ever been made by the concessionaire and deposited with the State Treasurer as is required by the following section of the contract:

(3) The College will furnish reasonable heat for the space occupied during those months that it is customary to furnish heat in buildings of the nature provided to the Concessionaire by the College, as well as the following additional utilities: Gas, Light, Steam and Electric Power for food processing. For these services, this Concessionaire will pay the College the sum of Six Hundred Dollars (\$600) annually, on or before December 31, of each year that this contract is in force. The check will be made payable to Westfield State College and mailed to the College where it will be deposited with the Treasurer of the Commonwealth.

b. The college never billed the concessionaire for \$1,595.60 of trash disposal attributable to the concessionaire's campus center snack bar. The contract states, in part, as follows:

(6) The Concessionaire shall make provisions for the daily disposal of trash and garbage within the concession area and shall provide proper metal receptacles for the removal of trash and garbage from these areas to an area for the ultimate disposal designated by the College. The College will invoice the Concessionaire semi-annually for the cost of providing the ultimate disposal of trash and garbage.

c. Until we requested a financial statement, the food service concessionaire did not provide such a statement to the college. The submission of this statement is required by the following section of the contract:

(8, 9) The Concessionaire further agrees to maintain adequate books of account pertaining to the financial status and conduct of the concession and to render a financial statement to the College within ninety (90) days of the close of each school year.

d. College payments to the concessionaire were delayed as many as 42 days from the dates established in the contract; also, for the fall 1989 and spring 1990 semesters the concessionaire was overpaid \$23,802 and \$14,856, respectively. The contract states, in part, as follows:

(11) The college will pay to the Concessionaire from revenues collected from students on the mandatory meal plan according to the following schedule:

<u>Semester</u>	<u>Date</u>	<u>% of Total Gross Receipts</u>
Fall	September 15	33.3*
	November 15	33.3*
	January 15	33.3#
Spring	February 1	33.3*
	March 30	33.3*
	May 30	33.3#

\*Based on estimated total gross receipts for the semester to be determined by the college.

#Based on total gross receipts, including adjustments.

According to the FRS, as of June 30, 1990 college payments and revenues collected from students were as follows:

<u>Semester</u>	<u>Payment</u>		<u>Dining Revenue (by Semester)</u>	<u>Overpayment by Semester</u>
	<u>Date</u>	<u>Amount</u>		
Fall	10-10-89	\$ 303,311		
	11-30-89	303,311		
	01-18-90	<u>306,928</u>		
		<u>\$ 913,550</u>	\$ 889,748	\$23,802
Spring	03-14-90	\$ 570,783		
	05-24-90	<u>269,087</u>		
		<u>\$ 839,870</u>	825,014	14,856
Total		<u>\$1,753,420</u>	<u>\$1,714,762</u>	<u>\$38,658</u>

While the audit was in progress, college officials and representatives from the food service company were in the process of reconciling the board payments for fiscal year 1990. After our audit field work was completed, the

two parties entered into an agreement pertaining to the discrepancy in board billing whereby the college received a \$21,813 settlement on February 11, 1991. Although the college has not indicated why it settled for \$16,845 less than was owed, we do know that the college's billing and receivables system indicated that board payments of \$16,431 were owed by students as of June 30, 1990.

e. According to the FRS, the concessionaire's \$36,542 payment for the fall 1989 semester service charge was not received by the college until February 2, 1990, and this payment included \$18,187 that should have been paid to the college during October 1989. Even though the concessionaire payment for the spring 1990 semester service charge was made in two installments, the first installment of \$16,851 was received six weeks late. The contract states, in part, as follows:

(13) Payment of the charge by the concessionaire shall be made as follows:

Fifty percent (50%) of the charge based on Estimated Gross Receipts for each semester, to be paid within 30 days from the first day of classes of said semester, and balance of the charge based on Actual Gross Receipts of each semester, to be paid within 30 days of the 1st day of final examination of said semester.

f. In addition to its operating the college's dining hall for students living on campus, the food service concessionaire runs two cafeterias and caters college functions. We found that commissions on its cafeteria sales were miscalculated and, as a result, the college was underpaid by \$606.

g. Contrary to Section 4 of the Agreement of Extension, the concessionaire did not submit to the college President a detailed description of dining room equipment it proposed to purchase and install. Also, we were informed by a college official that although there was no written approval from the President, the equipment purchased by the concessionaire was verbally approved by the college. The agreement required the concessionaire to purchase \$10,000

in dining room equipment; we found that 70 windsor side chairs costing \$5,600 and an industrial silverware washer/dryer costing \$3,571 were purchased. Sales tax of \$280 and freight charges of \$668 brought the total cost of these items to \$10,119. In the absence of a detailed concessionaire purchase proposal and written approval by the college President, it is unclear whether the concessionaire complied with the equipment purchase requirements of the agreement. The agreement states, in part, as follows:

(4) During the period ending on June thirtieth, 1990, the Concessionaire shall purchase and install in the dining commons at the college dining room equipment costing in the aggregate no less than Ten Thousand Dollars (\$10,000.00). On or before September 1, 1989, the Concessionaire shall submit to the college, which submission shall be made to the President thereof, a detailed description of the equipment, with the cost thereof, that the Concessionaire proposes to purchase and install pursuant to the provisions of this paragraph 4, together with a like description of the manner and location of such installation; and no such equipment shall be installed by the Concessionaire until the college, acting by its President, shall have approved the same in writing.

(B) Contract Extended without Other Proposals Being Solicited: On July 1, 1985 the college entered into a five-year contract through June 30, 1990 with a food service vendor. On May 1, 1989, 13 months prior to the contract's expiration, both parties executed an agreement to extend the original contract for an additional four years through June 30, 1994. The college agreed to the extension without soliciting requests for proposals from other food service vendors.

College officials stated that the food service concessionaire approached them in February 1989 and suggested that it would be in the interest of both parties to extend the existing contract through June 30, 1994. The concessionaire proposed to freeze the current semester rate for the 19-meal plan, and offer flexibility in meal plan selections with a new 14-meal plan. In a letter to the Chancellor of the Board of Regents, the Acting President of Westfield State College stated that the college was very satisfied with the

overall performance of the vendor in terms of the quality of the dining program provided as well as the positive working relationship developed and that he planned to recommend to the college's Board of Trustees that the contract be extended. The proposed contract extension was approved (after review and discussion) by the Board of Trustees, the college's legal counsel, the student food service committee, and the student senate.

Prudent business practices advocate that the college attempt to obtain the most economical and highest-quality food services for its students, faculty, and staff. Since the college did not solicit requests for other proposals, the college cannot be assured that it received the optimum food service plan.

Recommendation:

(A) The college should establish adequate administrative controls and procedures in order to ensure compliance with the terms and conditions of its food service contract by:

1. Designating an individual to determine that all contractual obligations (i.e., annual financial statements are filed by the concessionaire) are fulfilled prior to making the final payment to the concessionaire,
2. Reconciling financial data provided by the concessionaire with data reflected in the college's Financial Records System,
3. Obtaining the \$600 utility reimbursement payment due the Commonwealth from the concessionaire for fiscal year 1990 and any other years,
4. Researching its board payments made to the concessionaire for previous years and seek to recover any additional overpayments,
5. Billing trash removal costs from the concessionaire for fiscal year 1990 and for all previous years not paid by the vendor,

6. Obtaining timely payment of service charges from the concessionaire,
7. Billing the concessionaire for the \$606 that was due to a clerical error.

(B) The college should refrain from entering into any future long-term contracts without soliciting proposals from other vendors in order to ensure that the college receives the most economical and highest-quality service.

Auditee's Response:

Effective July 1, 1991, the Director of the Business Office and the Bursar are responsible for insuring that all contractual obligations are met prior to the final semester payment. The Bursar is responsible for verifying the receipt of services and the Director of the Business Office is responsible for authorizing the payment of services. A Business Office Project Log has been developed that identifies each contractual obligation and its due date.

The College has received financial statements from the concessionaire for all fiscal years of the current contract. All such statements are on file in the Westfield State College Treasurer's Office.

Effective July 1, 1991, the College reconciles the financial data between the concessionaire and the College's Student Receivable System at the end of each semester prior to the final payment. With the implementation of the new Student Information System on July 1, 1992, the College will reconcile the financial data provided by the concessionaire with financial data in the College's Student Receivable and in the College's General Ledger.

The College has received a \$600 annual payment from the concessionaire for all fiscal years. These monies have been forwarded to the State Treasurer. In addition, this task was added to the Business Office Project Log to ensure it is completed annually and on a timely basis.

During the month of January, 1991, the previous Director of Fiscal Affairs and the local manager for the concessionaire, completed a thorough and detailed audit of the Fall, '89 and Spring, '90 semesters. Each student was traced from the College's receivable system to the concessionaire's billing system. Both parties agreed and concluded in February 1991 that the overpayment was \$21,813.25. The College has received a payment for this amount from the concessionaire. The letter of reconciliation, signed by the College's Vice President of Administration and Finance and Seiler's Vice President for Administration and Finance agreed to the above amount as a final settlement to the overpayment discrepancy.

As a consequence of the Audit, the College has billed and collected trash disposal charges of \$776.24 and \$819.36 from the concessionaire for fiscal years 1990 and 1991 respectively. . . .

The College recognizes that the semester bills to the concessionaire were late. Consequently, the commission payments [service charges] from the concessionaire to the College were also late. Since the Audit, the billing and payment dates have been added to the Business Office log and the Bursar and the Director of the Business Office are responsible for their timely processing.

The \$606 underpayment for cafeteria sales was a clerical error made by the concessionaire and was discovered during the time of the audit. As a result of the audit, the College now checks and verifies all calculations submitted on bills and payments by the concessionaires before the commission checks are processed.

The Auditor's Report states, that Westfield State College Board of Trustees approved a five-year extension to an existing contract with the [concessionaire] after review and discussion by the Board, legal counsel, the student food service committee, the student senate, the College President, and the Chancellor of the Board of Regents. . . .

The acting president stated in writing the College's overall satisfaction with the concessionaire. The contract extension occurred prior to the opening of the new dining commons in 1989 and ensured that the new facility would be operated by a proven and trusted vendor. . . .

Auditor's Reply: We emphasize that in the future the college should solicit proposals from other vendors to ensure that the college receives the best services possible and at an economical price.

## 2. Miscellaneous Check Exchange Fund

Our review of the internal controls in place over the college's Miscellaneous Check Exchange Fund (MCEF) revealed deficiencies that allowed the following conditions to develop:

- o A \$76,893 variance in the MCEF developed in prior years (1982 - 1985) and was not resolved,
- o After the variance developed, supporting documents were not retained, and
- o Board of Trustee approval was not obtained prior to this variance being written off.

The MCEF is intended to function as a zero-balance account and was used to collect and disburse funds for college-sponsored trips, make temporary loans to financial aid/scholarship recipients, and make temporary loans to other trust funds and federal accounts until revenues for those accounts were received.

The State Comptroller's Internal Control Guide for Departments, Section I B, discusses some of the objectives of internal accounting control systems. This section suggests that there be controls to reasonably ensure that "recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference." It further states that internal controls should ensure "access to assets is permitted only in accordance with management's authorization."

We found that the reasons for the college's lack of compliance with the Comptroller's guide were:

- a. Personnel who previously reconciled the MCEF reconciled it to the variance figure from fiscal year 1986 until the account was closed in fiscal year 1990.
- b. College personnel stated that during 1986, many records, some pertaining to this account, were made available to outside parties under the Freedom of Information Act. After the records were reviewed by the outside parties, it was discovered that certain records could not be located. College staff attempted to determine the account variance, but could not because all documents necessary for a reconciliation of the account were not available.
- c. A college employee thought he did not need board approval for writing off variances by using adjusting entries. In order to bring the MCEF account into balance, he expensed funds from an account (Program of Continuing Education-Day Allocation) having a surplus.

As a result of the lack of internal controls, a \$76,893 entry was made to write off the variance in the MCEF without adequate documentation to support the variance and without the Board of Trustee's (management's) approval.

Recommendation: The college should strengthen its system of internal accounting controls to ensure that:

- a. Any variances from reconciliations conducted are properly resolved,
- b. Supporting documents pertaining to variances are controlled and retained until the variance is resolved, and
- c. Board of Trustee approval is sought for any significant and unresolved variance that is written off. The \$76,893 previously written off should be approved by the Board of Trustees.

Auditee's Response:

Effective July 1, 1991, the College has identified and implemented several monthly reconciliations. A log of these projects is maintained by the Director of the Business Office. Each reconciliation is thoroughly reviewed. Variances are noted and the reconciliation is initiated, dated and returned to the originator. Supporting document[ation] pertaining to any variance is recorded and is maintained on file in the Business Office.

The College has recommended a motion to the Board of Trustees for the May 4, 1992 meeting authorizing the July 11, 1990 journal entry J000244 used to charge off the \$76,893 variance in the MCEF account.

3. Bank Deposits and Transfers

Our review disclosed that the college lacked adequate processing controls over bank deposits and transfers of state and college trust funds. We found that bank deposits during January 1990, a peak revenue collection period, were delayed as much as one week. We also found similar delays in the making of bank account transfers.

Section 6.2.1 of the State Comptroller's Policy Manual Outline states, in part:

All monies received should be deposited with the State Treasurer, or in a local bank account approved by the State Treasurer, on a daily basis.

Monies received should be reported to the Comptroller upon receipt.

The college's Financial Policies and Procedures Internal Control Document also requires the prompt depositing of revenue. Section D of this manual states, in part:

All State-Appropriated Revenue is received by the Business Office staff. The staff deposits these funds into a bank account. The State Treasurer's Office electronically transfers these funds daily from the College account to the State Treasurer's account.

Non-Appropriated Fund receipts are received in the Business Office and deposited to the bank. The receipts are batched daily for entry into FRS.

Furthermore, an effective internal control plan requires adequate supervision by management to ensure that policies and procedures are followed.

Untimely deposits have delayed the Commonwealth's and the college's use of their funds. Untimely bank transfers have resulted in the loss of substantial interest earnings. During the period January 23, 1990 to April 2, 1990, surplus funds were not transferred into interest-bearing accounts and, as a result, approximately \$37,000 in interest earnings was lost. Moreover, untimely transfers resulted in insufficient funds in college bank accounts to cover payroll checks and payments to its vendors.

College personnel indicated that untimely deposits were due, in part, to a malfunctioning cash register, which necessitated that additional manual work be done. Although this may be true, we believe that the lack of adequate supervision contributed to the condition.

Recommendation: In order to achieve adequate internal control over bank deposits and transfers, the college must provide proper supervision over work performed by its staff members. Adequate and regular supervision will assist the college in making timely bank deposits and transfers.

Auditee's Response:

Since the Audit, the College has implemented several new procedures to ensure that the proper controls are in place for all cash activities. Internal controls for the transfer of cash from the

checking account to the investment accounts are in place that will ensure that minimum cash balances are maintained and that earnings are maximized. First, the College has consolidated all of the bank accounts into one interest bearing account. Second, an additional cash register has been added to the Business Office to assist with the daily deposits. Third, a personal computer application has been implemented to provide daily transfers of cash to be invested. Fourth, a reorganization of the Business Office has been completed that has separated collection and deposit activities from the reconciliations, daily supervisory responsibilities have been assigned; and finally, monthly reconciliations have been implemented to identify any cash variances.

#### 4. Allocation of Interest Income

We found that the college did not proportionately or promptly allocate \$275,318 in interest earned from its main bank account to the Commonwealth and to all college funds held on deposit prior to April 1990.

In conjunction with the Board of Regents' issuance of "Standards for the Expenditure of Trust Funds," the college established Supplemental Trust Fund Policies. Section VII of these policies states, in part:

Interest earned on Trust Funds shall be allocated proportionally to all funds.

State law requires payment of interest on Commonwealth deposits. Specifically, Chapter 29, Section 34, of the General Laws, states, in part:

State officers, departments, institutions and other agencies may deposit any portion of the public monies in their possession in such national banks, trust companies or banking companies, lawfully doing business in the commonwealth,...

All interest received on any deposits under this section shall be paid to the commonwealth.

Also, prudent business practice advocates that interest be promptly recorded in order to provide accurate and timely financial reports.

The following chart illustrates the untimeliness of recording interest allocations in the financial records:

Allocation Recorded in  
Financial Records System (FRS)

Period during Which  
Interest Was Earned

<u>Date</u>	<u>Amount</u>	
November, 1989	\$ 92,665	July 1989 - September 1989
May 11, 1990	<u>182,653</u>	October 1989 - April 1990
	<u>\$275,318</u>	

In an effort to determine whether allocations were made proportionately to various fund balances, we attempted to review the supporting documentation for the above-listed allocations. College officials could not locate any documentation for their allocation of \$92,665. However, we did review documentation relative to the May 11, 1990 allocation and found that:

- o Interest was allocated based upon the average daily cash balance reflected in the FRS during the last 10 days of April 1990, rather than on the average daily balance during the seven-month period when the interest was actually earned.
- o Funds held in the Student Accounts Receivable Account (SARA) represented funds being held for the Commonwealth and various trust funds pending categorization and subsequent transfer to the appropriate account. Interest earnings on the SARA were credited to the General Purpose Trust Fund instead of being allocated to the Commonwealth and to trust funds.

The college's noncompliance with its own policies and state law has resulted in \$30,011 being excessively credited to the college's General Purpose Trust Fund thereby depriving other college accounts and the Commonwealth of these interest earnings. Also, the untimely recording of interest has allowed for the dissemination of inaccurate financial information to college officials.

College officials could not explain the inequitable interest allocations to college trust, scholarship, and loan funds and the lack of interest allocation to Commonwealth funds. However, a college official told us that the untimely allocation of interest was caused by staffing shortages. Subsequent to April 1990, we noted that the college was allocating interest on a monthly basis.

Recommendation: The college should recalculate the interest allocations made during the audit period. These allocations and all subsequent allocations should be made proportionately to both the Commonwealth and the college trust funds in accordance with the college's policies and state law. Allocations should be made based upon an account's average daily balance during the period in which interest was actually earned. Additionally, college officials should specifically identify those accounts that are entitled to receive interest allocations.

Auditee's Response:

As noted in the Auditor's Report, the College's inequitable interest allocations to certain funds was due to other than staff shortages. Prior to the FY 89-90 audit, the Director of the Business Office recognized the need to upgrade the current interest allocation formula to a more equitable application. During April 1990, an interest allocation program was developed. This program allocates interest earnings to various state, federal and campus accounts based on their actual daily cash balances. . . .

FRS does not have the capability of providing daily cash balances for prior periods. The only option available to the College was to use the actual daily balances for the last ten days in April. From that point, each monthly allocation has been based on the actual daily balance of each account per the interest allocation program developed in April, 1990 . . .

It is not possible to allocate interest earnings to the Student Accounts Receivable Account. The Student Accounts Receivable Account is only a clearing account. Deposits recorded in the receivable system are transferred into this account until the FRS account number can be identified. At that point, a manual journal entry is processed to transfer these funds to the appropriate FRS account number . . .

The College did not excessively credit any amount of interest to the General Purpose Trust Fund. The College has identified the state, federal, loan and campus accounts that are entitled interest earnings. The remaining campus accounts and all agency accounts are not entitled to interest earnings. The interest earned on these accounts is credited to the General Purpose Trust Fund.

In April, 1990 the College implemented an interest allocation program which is based on actual daily cash balances. In addition, all the Commonwealth's accounts, mandated federal accounts and various campus accounts are included in this allocation formula. The College has already determined the campus accounts that should earn interest

income and will review these accounts during FY92. Interest earnings were remitted to the Commonwealth during FY91 from its interest bearing checking account earnings. Previous earnings were only from interest from its investment account.

Auditor's Reply: We recognize that the college's interest allocation program implemented in April 1990 will assist in promptly allocating interest to all funds. However, we do not agree with the college's contention that it did not excessively credit any amount of interest to the General Purpose Trust Fund. The college's FRS system contains a Student Accounts Receivable Account (SARA), which holds student payments of tuition (Commonwealth funds) and fees (trust funds) until these funds are distributed to specific FRS accounts. Therefore, based on Chapter 29, Section 34, of the General Laws interest should be paid to the Commonwealth for tuition funds held in SARA prior to the allocation of tuition to the Commonwealth. Similarly, those trust fund balances held in the SARA should also receive their fair share of interest as required by the college's policy to allocate proportionally to all funds. The college should review its allocation of \$275,318 in interest earned prior to April 1990 and allocate an equitable portion to the Commonwealth and other college accounts.

If, as the college implies, balances during the last 10 days of April 1990 are the best available information, then we agree that the use of these amounts may be the most cost-effective basis to determine the allocation.

##### 5. Expenditures of Accounts Payable Funds

Our tests of state appropriation expenditures disclosed that \$31,125 in fiscal year 1989 accounts payable funds was used to satisfy fiscal year 1990

obligations, rather than being returned to the Commonwealth's General Fund.

Chapter 164, Section 19, of the Acts of 1989 provides that funds left over and encumbered as of the close of the fiscal year can be used for payment of only that fiscal year's bills. This section states, in part:

Notwithstanding the provisions of Section 13, Chapter 29 of the General Laws, only that portion of an appropriation for ordinary maintenance representing obligations incurred during the fiscal year and which are encumbered on the records of the comptroller's bureau at the close of the fiscal year may be applied to the payment thereof in the four months immediately succeeding such fiscal year.

College personnel believed that there would be a retroactive fiscal year 1989 charge from their utility vendor. Since this retroactive charge never came, they decided to utilize the encumbered funds to pay for fiscal year 1990 utility charges rather than lose the encumbered funds.

Recommendation: In the future, the college should review its accounts payable to ensure that they are spent on the correct year's obligations.

Auditee's Response:

The College recognizes the importance of expending encumbered funds in the designated fiscal year and will take the measures necessary to ensure that all state appropriated funds are expended according to the State Comptrollers policies and procedures and that all unexpended funds, at the end of the fiscal year, will be reverted to the Commonwealth. . . .

6. Entry of Certain Financial Transactions

Our review of internal controls over the entry of data into the college's automated FRS noted that:

- o Untimely entries were being made to record bank deposit and transfer information (up to a three-week delay) and expenditures from state appropriations (up to a three-month delay). Our comparative tests of deposit dates to dates of entry into FRS indicated that during January 1990 \$2,937,595 of \$4,060,865 deposited, or 72%, were recorded late. Comparative tests of fiscal year 1990 state expenditure dates to FRS entry dates indicated that 25 expenditures representing \$49,122 of 67 expenditures tested representing \$129,342, or 38%, were recorded late.

The Comptroller's Internal Control Guide for Departments, Section I B, defines internal accounting control as "The plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records."

As a result of the inadequate supervision over data entry, the college's financial records were not reliable, since they reflected outdated and inaccurate information. In order to achieve efficient use of all resources, the college needs to know how much idle cash it has available to invest. Proper and timely recording of bank transfers in the college's FRS will provide the mechanism for turning idle cash balances into interest-bearing funds. The untimely entry of data into the FRS promotes greater chance for human error.

College personnel indicated that the untimely FRS entries were due to staffing shortages. However, personnel could not explain the lack of entries regarding bank transfers and accounts payable expenditures.

Recommendation: College administrators should review current staffing patterns and job responsibilities. Personnel and work duties should be realigned, as necessary, to ensure that internal controls are improved in order to permit prompt and accurate entry of data into the college's accounting system.

Auditee's Response:

During the spring and summer of 1991, the College implemented a major reorganization in the Business Office. During the reorganization supervisory responsibilities for the Business Office were shifted from the VP of Administration and Finance to the Treasurer, the Director of Fiscal Affairs position was eliminated, staffing patterns were scrutinized, job descriptions were reviewed and Business Office responsibilities were realigned. The College implemented a new organizational table for the Business Office and changes in personnel allowed for essential positions to be filled. Since the audit, the College has also implemented several procedures to ensure that all transactions are recorded in a timely fashion and that all bank transfers are entered in FRS.

## 7. Trust Fund Expenditures

We noted weaknesses requiring corrective action during our review of the college's compliance with its own internal control procedures over trust fund expenditures. We tested 72 trust fund payments and noted:

- o Twenty-eight purchases, totaling \$17,001, did not have funds encumbered prior to payment. Since funds were spent without being first encumbered, financial commitments could have been made without there being sufficient funds in the trust fund accounts.
- o Five purchases, individually valued between \$500 and \$2,000 and totaling \$7,185, did not have evidence of the college Purchasing Agent's having obtained either a verbal or written price quote. Without either written or verbal price quotes on file, the college cannot be assured that the items were purchased from the lowest-priced qualified vendor.
- o Nine student board refunds for triple-room occupancy, totaling \$1,846, were not documented or approved. Without supporting approval documents on file, the college cannot be assured that expenditures were made as management had intended.

Section B.10 of the college's Financial Policies and Procedures Internal Control Document requires funds to be encumbered once a financial obligation is incurred. This section states, in part:

- b. [If purchases are] between \$500 and \$2,000, three written or telephone quotes are obtained by Purchasing, and a record of these quotations is permanently attached to the CANARY copy of the Requisition. The Trust Fund Purchase Order is issued to the lowest-priced qualified vendor and the transaction proceeds . . .
- c. The Purchase Order is [then] encumbered in FRS by the Purchasing Department. After funds are encumbered, Section C-1 of this document requires the department requesting payment to submit Request to Pay forms, along with supporting invoices and documents, which are signed by the requesting party, the responsible department head and either the responsible Vice President or the President. These are then to be sent to the business office for review and entry.

Also, internal control procedures recommend that expenditures be supported by approval documents and that these documents be retained on file.

Because the college's former Purchasing Agent and former Bursar terminated their employment with the college prior to the audit, we were unable to obtain their explanations for the lack of encumbrances and the lack of approval documentation for payments. However, a college official explained that faculty and student senate organizations did not follow college procedures when committing college funds. A lack of adequate supervisory monitoring of the fiscal office staff has contributed to the college's noncompliance with its internal control procedures.

Recommendation: With ever-increasing budgetary constraints, the need for adherence to the college's internal control policies should be emphasized to the faculty, students, fiscal office staff, and supervisory personnel. The following points should be emphasized:

- a Funds should be encumbered as soon as a financial commitment is made and prior to payment,
- b. Written or verbal price quotes should be obtained and on file for purchases valued between \$500 and \$2,000, and
- c. Approval documents should be on file to support all expenditures.

Auditee's Response:

Each College trust fund account has an account manager with the responsibility of monitoring the account activity. Further, all trust fund accounts are monitored by the Purchasing Officer to ensure that the account balance is sufficient to cover the expenditure. College internal control procedures state that account managers are required to process the necessary documents to encumber funds prior to payment. It is the College's position that all staff should understand, promote and support the institutions internal control system. Internal control procedures are to be a part of the departments day to day operations and are to be adhered to fully. Monitoring in these areas will be increased to ensure full compliance.

The College accepts the responsibility for oversight of the items mentioned in the audit. The College will continue to honor the College policy requiring that written or verbal price quotations be obtained and kept on file for purchases between \$500 and \$2,000 and will continue to honor all state mandated purchasing policies which require quotations for items costing greater than \$2,000.

The College will continue to request that either a Request to Purchase or a Request to Pay form be approved and on file for all expenditures.

#### 8. Student Billing and Receivables System

Our review of the college's automated student billing and receivables system, which controls the collection of student tuition and fees (e.g., student activities fees, health fees, room, board, and library development) and is maintained on the Board of Regents' computer network, disclosed that:

- o Student receivables balances could be adjusted without leaving an audit trail of such alteration. For example, non-cash credits could be made to reduce a student's receivable balance without a record of who made the entry or why it was made. Also, the date and amount of a payment made to a student's account receivable balance could be subsequently adjusted to reflect a different date and/or amount paid. Again, no record of the reason for or the source of the adjustment was maintained.
- o Fifteen percent of the tuition waived in our sample of documents supporting tuition adjustments was not adequately supported.
- o As of June 30, 1990 the student receivables balance of \$144,938 was not integrated on the college's FRS and detailed lists supporting receivables for spring 1988 through fall 1989 semesters, totalling at \$28,756 could not be located during the audit.

Chapter 75, Section 13, of the General Laws states, in part:

The trustees shall see that there is maintained an accounting system as required by the State Comptroller.

The receipt and disbursement of funds and necessary books of account shall be maintained in a manner consistent with proper accounting procedure. . . .

The Comptroller's Internal Control Guide for Departments, Section VII, suggests that revenue controls be designed to ensure public funds are collected, deposited, and reported accurately and efficiently. Specifically, Subsection C states, in part:

All revenue received should be recorded accurately, efficiently (with documentation), allocated properly, deposited with the State Treasurer (or the appropriate depository) promptly and intact, and credited to the proper funds.

Cancellations, remissions, adjustments, refunds, abatements, or credit memoranda should be properly authorized and transacted.

Without adequate control of student billing and receivables, the college has little assurance that the Commonwealth and the college trust funds received all the revenues to which they were entitled.

Because the responsible employee had since terminated employment with the college, the college could not explain why the receivables balances were not integrated with the FRS, why the detailed lists were missing, or why certain tuition waivers were not on file. College officials, who were unaware that a record of alterations to the student receivables balances was not being maintained by their automated system, subsequently eliminated the computer program that allowed accounts to be modified in this manner.

Recommendation: The college should improve control over its billing and receivables system to ensure the Commonwealth and the college trust funds receive the funds to which they are entitled. Student billings and all receivables activity should be integrated into the college's FRS, all detailed lists of student receivables should be retained in a secure area so that they are not misplaced or misappropriated, tuition waivers should be substantiated by the applicable authorized waiver form, and all non-cash credits to student receivables balances should be documented.

Auditee's Response:

On July 1, 1992 the College will implement a new Student Information System (SIS) that is fully integrated with the College's Financial Records System. The new SIS system produces a daily audit trail report of each debit or credit transaction. In addition, all contractual waivers are reconciled twice each semester to ensure that all supporting documentation is on file in the Business Office. All financial aid waivers and supporting documentation are maintained in the Financial Aid Office.

9. Trust Fund Payroll System

Our review of internal controls over the Trust Fund Payroll System noted the following payment documentation and Internal Revenue Service (IRS) requirement issues:

- o Our test of 62 payments noted 16 instances where supporting documents, such as contracts and time records, were not available to substantiate payments made.
- o Certain IRS requirements were not complied with:
  - a. The college never deducted the hospital insurance portion of Social Security taxes (Medicare tax) for employees hired after March 31, 1986;
  - b. Timely withholding deposits were not made;
  - c. Tax deposits were inadvertently made directly to the IRS rather than to the bank depository; and
  - d. Employee wage statements (Form W-2) for calendar year 1989 inaccurately reported employee earnings.

The Comptroller's Internal Control Guide for Departments, Section II E, provides that "each step in the transaction process should be documented to allow an audit trail." In addition, IRS Form 941E (Quarterly Returns of Withheld Federal Income Tax and Hospital Insurance - Medicare) provides instructions relative to the "2.9% Medicare tax" withholdings as well as instructions to employers to make tax deposits. Line 6 of Form 941E provides the following Medicare tax instructions:

State and Local government employers use this line to report wages of employees hired after March 31, 1986, that are subject to the hospital insurance portion of Social Security taxes. . . .

The combined tax rate is 2.9%.

Form 941E provides the following instructions for employers to make tax deposits:

. . . you must deposit backup withholding, withheld income tax, and the employee and employer Medicare tax with an authorized financial institution or a Federal Reserve bank or branch that serves your area. . . to avoid a possible penalty, do not mail your deposit to IRS.

IRS forms W-3 (Transmittal of Income and Tax Statements) and W-2 (Employee Wage Statement) require the accurate reporting of an employee's actual wages and withholdings for the calendar year and provide a possible penalty for reporting incorrect information.

Because the college lacked adequate documentation on file to support payroll payments, it cannot demonstrate the validity of certain payroll payments made on the Trust Fund Payroll System. Because tax deposits were not made timely and deposits were made directly to the IRS, the IRS assessed the college \$3,163 in deposit and late-payment penalties. In addition, certain employees' W-2 wages were incorrectly reported for calendar year 1989. These conditions happened because:

1. Responsible department heads were unaware of the need to retain supporting documentation in the form of time sheets and/or employment contracts on student employees who subsequently graduated.
2. The Trust Fund Payroll System was not programmed to withhold the employee share of the Medicare tax and provide the employer's matching portion of the tax.
  - o Quarterly earnings were reported using the wrong form, causing the wrong employer identification number to be credited.
  - o Quarterly deposits were sent directly to the IRS rather than to the designated depository.
  - o The Trust Fund Payroll System was not updated for either hand-written or voided computer checks, causing inaccurate wage totals.
  - o The Trust Fund Payroll System lacked supervisory review.

The college's current Business Officer was reconciling tax reporting differences with the IRS and has implemented a number of procedures to record and process trust fund payrolls, which should help in the proper reporting of wages and withholding taxes.

Recommendation: The college should

- o Ensure that documents supporting trust fund payrolls are prepared and retained,
- o Review annual wage reports and issue corrected wage statements to employees whose wages were previously misstated, and
- o Continue to resolve tax reporting differences with the IRS.

Auditee's Response:

As of January, 1991 the College implemented a new procedure that ensures that proper and complete documentation is received for each

payroll transaction. These documents are retained in the Business Office. In addition; a complete reconciliation of the actual time sheets to the total payroll is completed prior to the disbursement of checks; a reconciliation of payroll system is completed each week to ensure that the gross earnings, federal withholding, and state withholding are all correct for each employee; and the appropriate deposits have been processed.

The College has corrected and issued new wage statements for those that were determined to be incorrect.

To date, all the federal withholding variances with the IRS have been identified and resolved.

#### 10. Property and Equipment

We noted various instances in which the college was in noncompliance with its own internal control procedures over property and equipment. Our tests of the college's inventory system and its September 30, 1990 perpetual inventory list noted:

- o 33 of 93 items sampled were found in locations other than those indicated on the inventory list.
- o 18 of 73 items did not have inventory tags affixed.
- o 12 of 73 items could not be located.
- o 4 of 45 items did not appear on the perpetual inventory list.

The college has established internal control procedures for property and equipment inventory control through its Financial Policies and Procedures Internal Control Document. Section F of this document provides the following specific inventory control procedures:

3. After receiving the equipment, the Inventory Control Officer makes an appointment with the department receiving the equipment, takes the Data Entry Form and a copy of the receiving document to the department and affixes an inventory tag. The Data Entry Form is then completed as follows: Department Tag Number, Description, Manufacturer, Model Number, Serial Number, P.O. Number, Cost, Date of Purchase and Location.
5. Before any equipment can be removed from a department, a Transfer of Equipment to Off-Campus Locations must be completed and signed by the Purchasing Officer. One copy is filed with Inventory Control, one is filed in the Purchasing Department and one copy is kept with the equipment in custody of the borrower.

7. At least annually, each department is furnished a complete listing of all equipment charged to the department and the department reviews and updates the records.
8. From time to time, the Inventory Control Officer independently performs physical inventories of various departments to ensure accuracy.

We noted that college personnel did not notify the Inventory Control Officer when equipment was moved from one location to another (Procedure 5); departments did not review lists provided to them of equipment charged to their custody (Procedure 7); the Inventory Control Officer was not performing independent, periodic checks (Procedure 8); and the Inventory Control Officer was not notified of all equipment purchases (Procedure 3).

Because of these inventory deficiencies, the college's property and equipment was susceptible to theft, misplacement, and misuse.

A successful inventory system cannot be the sole responsibility of a few individuals. Full cooperation must be given by all college departments and department heads. Department heads must share in the responsibility and accountability of property in their custody.

During audit field work the Inventory Control Officer had affixed inventory tags to the untagged items we noted. Also, at the completion of audit field work, a college official supplied us with additional written inventory control procedures that, if followed, should help safeguard property and equipment against loss and misuse.

Recommendation: The college should

- o Adhere to its newly written inventory procedures;
- o Attempt to locate those items we could not account for and, if they cannot be located, notify college security; and
- o Adjust the perpetual inventory record to reflect any new location of equipment.

Auditee's Response:

The College acknowledges the discrepancies found pertaining to the inventory of Property and Equipment. Since February, 1990 the College has implemented two administrative reorganizations which have resulted in changes for several departments, including in some cases a change in building locations. These facility changes may account for some of the noted discrepancies.

After June 30, 1992, the College must change its present inventory system which resides on the Regents Computing Network Cyber Computer. As our inventory control migrates to our own computer environment, every effort will be made to reconcile existing discrepancies.

The newly written inventory procedures dated January 29, 1991 are being adhered to as recommended.

The College will attempt to locate all inventory items during its annual inventory process. As required in their Lost or Misplaced Assets Procedure the State Auditor's Office will be notified if any items fall into this category.

The College updates the new locations of each inventory item as they are reported throughout the year and during the annual inventory process.



## FINANCIAL STATEMENTS

Statement No. IStatement of Expenditures under Appropriation  
and Receipts Account of Income

Fiscal Year Ended June 30, 1990

Appropriation (Account No. 7115-0100)	<u>\$13,121,695</u>
Disbursements	\$13,099,045
Encumbrances	-
Expenditures	<u>\$13,099,045</u>
Reverted	<u>22,650</u>
	<u>\$13,121,695</u>
Receipts Account of Income	<u>\$2,570,890</u>
Analysis of Expenditures:	
Salaries - Permanent Positions	\$11,779,336
Salaries - Other	47,082
Services - Nonemployees	92,828
Clothing	5,400
Housekeeping Supplies and Expenses	23,312
Heat and Other Plant Operations	804,525
Farm and Grounds	19,102
Travel and Automotive Expenses	10,201
Advertising and Printing	9,248
Maintenance - Repairs, Replacements, and Alterations	69,167
Special Supplies and Expenses	82,270
Office and Administrative Expenses	130,245
Equipment	8,009
Rentals	<u>18,320</u>
	<u>\$13,099,045</u>
Analysis of Receipts Account of Income:	
Tuition and Fees	\$2,479,306
Rents - Other	143
Sales	4,592
Miscellaneous	<u>86,849</u>
	<u>\$2,570,890</u>

The accompanying notes are an integral  
part of these financial statements.

Statement No. IIComparative Statement of Budget and Actual Expenditures  
under Appropriation and Receipts Account of Income

Fiscal Year Ended June 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Actual (under)/over Budget</u>
Appropriation (Account No. 7115-0100)	<u>\$13,121,695</u>	<u>\$13,121,695</u>	<u>-</u>
Analysis of Expenditures:			
Salaries - Permanent Positions	\$11,779,545	\$11,779,336	\$ (209)
Salaries - Other	51,329	47,082	(4,247)
Services - Nonemployees	92,828	92,828	-
Clothing	5,400	5,400	-
Housekeeping Supplies and Expenses	23,312	23,312	-
Heat and Other Plant Operations	804,631	804,525	(106)
Farm and Grounds	19,104	19,102	(2)
Travel and Automotive Expenses	21,406	10,201	(11,205)
Advertising and Printing	11,204	9,248	(1,956)
Maintenance - Repairs, Replacements, and Alterations	69,530	69,167	(363)
Special Supplies and Expenses	82,272	82,270	(2)
Office and Administrative Expenses	132,224	130,245	(1,979)
Equipment	8,009	8,009	-
Rentals	<u>20,901</u>	<u>18,320</u>	<u>(2,581)</u>
	<u>\$13,121,695</u>	<u>\$13,099,045</u>	<u>\$(22,650)</u>
Analysis of Receipts Account of Income:			
Tuition and Fees	\$2,643,600	\$2,479,306	\$(164,294)
Rents - Other	600	143	(457)
Sales	5,000	4,592	(408)
Miscellaneous	<u>150,000</u>	<u>86,849</u>	<u>(63,151)</u>
	<u>\$2,799,200</u>	<u>\$2,570,890</u>	<u>\$(228,310)</u>

The accompanying notes are an integral  
part of these financial statements.

Statement No. IIIStatement of Other Appropriations

July 1, 1989 to June 30, 1990

Account Number	Appropriation	Appropriation and Balance Forwarded	Expenditures	Reverted	Reserved
7107-0029	Continuing Education Trust Fund	\$ 642,068	\$ 573,763	-	\$ 68,305
7115-1111	Retained Tuition	398,267	375,786	\$3,150	19,331
7115-6001	Authority Dormitory Payments	1,133,166	1,064,850	-	68,316
7115-6007	Education for Economic Security Act Title II	16,361	16,161	-	200
7115-6014	Special Trust Fund - Westfield	799,149	778,026	-	21,123
7115-6600	Julia S. Noble Rockwood Scholarship Fund Purchase of Investments and Payments	1,571	1,000	-	571
7115-6602	Scholarship Trust Fund - Payments	61,116	21,600	-	39,516
7115-6620	Julia S. Noble Rockwood Scholarship Fund Purchase of Investments	5,000	-	-	5,000
7115-7346	Hamicapped Access Improvement Worcester State College (Allocation of 1102-7346)	8,918	8,419	-	499
7115-7376	Allocation of Furnishing and Equipment (Allocation of 7100-7371)	2,503	-	-	2,503
7115-7381	Computer Telecommunications Equipment	105,000	105,000	-	-
7115-7382	Capital Equipment Westfield State College 1988	20,364	-	-	20,364

Statement No. III (continued)Statement of Other Appropriations

July 1, 1989 to June 30, 1990

Account Number	Appropriation	Appropriation and Balance Forwarded	Expenditures	Reverted	Reserved
7115-7885	Repair/Replace Underground Steam Supply c. 199, 1987	\$ 25,000	\$ 19,753	-	\$ 5,247
7115-7891	Replacement of Astro turf Filled Capital Outlay Repair Loan, C. 164, 1988	985,000	-	-	985,000
7115-7893	Scientific, Technological, and Other Reference Material	43,183	-	-	43,183
7115-8847	Roof Replacements	100,964	10,700	-	90,264
7115-8848	Relocation of Athletic Fields	11,044	-	-	11,044
7115-8849	Various Repairs and Renovations	1,362	-	-	1,362
7115-8880	For Handicapped Access Improvements	4,536	4,536	-	-
7115-9604	Disadvantaged Students	78,619	76,306	\$2,313	-
7115-9704	Matching Federal Grants	139,229	139,229	-	-
7115-9705	Educational Reference Material for Library	84,452	84,452	-	-
7115-9725	Special Services for Disadvantaged Students	-	-	-	-
7115-9730	Osmolarity - Recovery of Sanitary Indicator Organisms/Stressed Aquatic	-	-	-	-

Statement No. III (continued)Statement of Other Appropriations

July 1, 1989 to June 30, 1990

<u>Account Number</u>	<u>Appropriation</u>	<u>Appropriation and Balance Forwarded</u>	<u>Expenditures</u>	<u>Reverted</u>	<u>Reserved</u>
7115-9802	Title III Institutional Aid Program	\$ 13,706	\$ 13,706	-	-
7115-9843	Data Processing Equipment and Leasing	12,858	-	-	\$ 12,858
7115-9871	Doors	80,000	44,782	-	35,218
7115-9879	Parking Lot - Westfield State College (Allocation of 7115-7871)	120	-	-	120
7115-9880	Athletic Field Irrigation System	17,798	-	-	17,798
7115-9885	Westfield Dining Hall Automatic Door Openers	8,000	5,108	-	2,892
		<u>\$4,799,354</u>	<u>\$3,343,177</u>	<u>\$5,463</u>	<u>\$1,450,714</u>

The accompanying notes are an integral  
part of these financial statements.

## Statement No. IV

Trust FundsReceipts and Disbursements

July 1, 1989 to June 30, 1990

Account Name	Balance		Receipts	Disbursements	Balance	
	July 1, 1989				June 30, 1990	
Alumni Trust Fund	\$ 44,082	\$	99,011	\$ 97,992	\$	45,101
Athletic Fund	39,282		346,362	325,801		59,843
Bookstore Trust Fund	66,688		104,190	79,004		91,974
Building Authority Trust Fund	172,628		3,596,209	3,582,322		186,515
Commencement Fee Trust Fund	70,291		66,940	71,013		66,218
Continuing Education Trust Fund	158,923		2,485,795	2,327,302		317,416
Dormitory Damage Trust Fund	82,352		54,429	66,706		70,075
Educational Services Trust Fund	78,915		160,981	163,612		76,284
Federal Student Financial Aid Overhead Trust Fund	27,276		47,120	36,606		37,790
Food and Dining Service Trust Fund	65,987		123,557	126,190		63,354
General Purpose Trust Fund	61,850		176,793	97,156		141,487
Health Fee Trust Fund	157,791		200,925	190,450		168,266
Library Development Trust Fund	90,646		191,395	203,078		78,963
Miscellaneous Exchange Trust Fund	(80,256)		219,820	140,576		(1,012)
Orientation Fee Trust Fund	15,888		40,973	35,465		21,396
Parking Control Trust Fund	50,864		117,333	107,422		60,775
Placement Service Trust Fund	13,765		26,921	18,737		21,949
Reading Clinic Trust Fund	8,239		5,583	5,292		8,530
Scholarship Trust Fund	2,335		117,803	111,038		9,100
Student Loan Fund	10,256		1,180	-		11,436
Student Senate Trust Fund	8,930		201,960	181,871		29,019
Student Teaching Trust Fund	6,968		14,801	11,688		10,081
Student Union Trust Fund	69,816		297,253	280,192		86,877
Swimming Pool Trust Fund	22,731		20,350	27,721		15,360
	<u>\$1,246,247</u>		<u>\$8,717,684</u>	<u>\$8,287,234</u>		<u>\$1,676,697</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

According to Chapter 7A, Section 7, of the General Laws, as amended, the State Comptroller is responsible for the Commonwealth's accounting system. The Comptroller establishes and maintains funds as authorized or mandated by the various provisions of the General Laws. The State Treasurer, a constitutional officer, has custody of and manages the Commonwealth's cash and investments.

The financial statements in this report refer to specific accounts within the Commonwealth's fund structure. Westfield State College is required to follow the accounting and financial reporting policies prescribed by the Commonwealth. These policies differ in certain respects from generally accepted accounting principles as applicable to governmental units. The following is a summary of the Commonwealth's significant policies as they pertain to Westfield State College.

Basis of Accounting: Westfield State College uses a limited accrual basis of accounting. Receipts are recognized when received, and expenditures, with the exception of year-end encumbrances, are recorded on a cash basis. At the close of the fiscal year, all encumbrances (expenditure commitments) against maintenance appropriation accounts are recorded as expenditures. The State Comptroller considers these encumbrances as accounts payable, which, if not expended, will revert to the Commonwealth on or before December 31.

The Commonwealth's accounting system requires state agencies to expense, rather than capitalize, purchases of fixed assets.

## 2. Fiscal Year 1990 Expenditures

As described in Note No. 1, at fiscal year-end all encumbrances against appropriation accounts for ordinary maintenance that expire at the end of the fiscal year are recorded as expenditures. The State Comptroller considers these fiscal year-end encumbrances as accounts payable, and, in accordance with Chapter 29, Section 13, of the General Laws, these encumbrances are to be paid within four months of the fiscal year-end, but are extendable to six months upon request.

Fiscal year 1990 expenditures, as indicated on Financial Statement No. I, have been adjusted to reflect the final disposition of the fiscal year-end encumbrances.

## 3. Program of Continuing Education's Reimbursement of Costs to the College

The following summary of expenses was paid from the Day School Allocation Program of Continuing Education Account during fiscal year 1990:

	<u>Total Expended</u>
Services - Nonemployees	\$130,997
Laboratory and Medical Expenses, and General Care	64
Heat and Other Plant Operations	447
Farm and Grounds	412
Travel and Automotive Expenses	9,070
Advertising and Printing	386
Maintenance - Repairs, Replacements, and Alterations	120,807
Special Supplies and Expenses	41,549
Office and Administrative Expenses	132,860
Equipment	4,999
Rentals	1,479
Contingencies and Reserves	33,010
	<u>\$476,080</u>

## SUPPLEMENTARY SCHEDULES

Schedule No. IStatus of Fiscal Year 1989 Accounts Payable

July 1, 1989 to June 30, 1990

	Accounts Payable Balance <u>July 1, 1989</u>	<u>Expenditures</u>	<u>Reverted</u>
<u>Appropriation (Account No. 7115-0100)</u>			
Salaries - Permanent Positions	\$ 46,656	\$ 46,656	-
Services - Nonemployees	12,912	12,208	\$ 704
Clothing	692	692	-
Housekeeping Supplies and Expenses	218	170	48
Heat and Other Plant Operations	133,140	133,108	32
Farm and Grounds	78	78	-
Travel and Automotive Expenses	5,756	2,452	3,304
Advertising and Printing	5,900	5,097	803
Maintenance - Repairs, Replacements, and Alterations	23,717	22,286	1,431
Special Supplies and Expenses	11,277	10,346	931
Office and Administrative Expenses	15,791	12,210	3,581
Equipment	4,489	4,366	123
Rentals	1,300	996	304
	<u>\$261,926</u>	<u>\$250,665</u>	<u>\$11,261</u>

Schedule No. IIFederal FundsReceipts and Disbursements

July 1, 1989 to June 30, 1990

<u>Account Name</u>	<u>Balance</u> <u>July 1, 1989</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 1990</u>
Pell Grant	\$ -	\$ 700,036	\$ 707,082	\$ (7,046)
College Work Study Program	\$ 1	403,914	342,013	61,902
Supplemental Educational Opportunity Grant	-	320,902	320,902	-
National Direct Student Loans	903,438	826,724	793,790	936,372
Title III	17,080	-	15,710	1,370
	<u>\$920,519</u>	<u>\$2,251,576</u>	<u>\$2,179,497</u>	<u>\$992,598</u>

## SUPPLEMENTARY INFORMATION

1. Audit Review

At the conclusion of this audit, a draft of this report was reviewed with the following officials of Westfield State College:

Ronald L. Applbaum, President

James A. Stakenos, Executive Assistant to the President

Paul J. Mei, Treasurer and Budget Director

Nick Wojtowicz, Director of the Business Office

2. Unaudited Financial Activity

The financial transactions of Westfield State College were not examined for the period April 1, 1987 to June 30, 1989. Since we did not test any activity for the period noted, we cannot express an opinion on its accuracy or validity.

3. Accounts Payable

As described in the Notes to Financial Statements, No. 1, encumbrances outstanding at year-end for lapsing appropriations are recorded as expenditures at year-end and are reported as accounts payable by the State Comptroller. Chapter 29, Section 13, of the Massachusetts General Laws requires the Comptroller to encumber (reserve) that portion of appropriated monies representing encumbrances outstanding for ordinary maintenance at the close of the fiscal year. Supplementary Schedule No. I discloses the final disposition of encumbrances outstanding (accounts payable) for the fiscal year ended June 30, 1989.

4. Subsequent Event

After the completion of our audit field work, Westfield State College reported that Division of Graduate Studies and Continuing Education funds were

missing from the college's deposit of July 2, 1991. The college's subsequent investigation resulted in the discovery of funds totaling \$7,895, missing between February 8, 1990 and July 2, 1991, as a result of what the college believes was employee theft. The college reported this possible theft of funds to the Office of the State Auditor and the Hampden County District Attorney's Office. Under Chapter 647 of the Acts of 1989, the Office of the State Auditor has conducted a review of the internal control weaknesses that contributed to or caused the possible theft. The results of our review and our recommendations to improve the college's internal control system were issued in a separate report (92-2002-2) dated October 15, 1992.

An investigation is being conducted by the Massachusetts State Police - Crime Prevention and Control (CPAC) unit assigned to the District Attorney's Office.

## ORGANIZATION

June 30, 1990

Westfield State College is authorized by Chapter 73, Section 1, of the General Laws, as amended.

Board of Trustees - Westfield State College

<u>Name and Address</u>	<u>Term Expires</u>
Ms. Eileen Griffin 158 Maple Street Springfield	April 1, 1992
Dr. Robert Bezucha 74 Overlook Drive Amherst	April 1, 1992
Ms. Eleanor Cress 17 Crescent Road Longmeadow	March 1, 1994
Ms. Sophie J. Chmura 27 Holton Street Chicopee	March 1, 1991
Mr. Edward W. Collins, Jr. 40 Kathleen Street Springfield	July 1, 1995
Ms. Maureen Gallo 252 Paper Mill Road Westfield	April 1, 1992
Dr. William Phillip Gorth P.O. Box 226 Amherst	July 1, 1995
Ms. Kathleen M. Sheehan 45 Hasting Heights Florence	July 1, 1995
Dr. Robert Shilkret Department of Psychology Mt. Holyoke College South Hadley	March 1, 1994

## ORGANIZATION (continued)

June 30, 1990

Board of Trustees - Westfield State College

<u>Name and Address</u>	<u>Term Expires</u>
Mr. Luther White 11 Highland Circle Westfield	March 1, 1994
Mr. Mark Rockwal Student Representative WSC Mailbox 209 98 Larchley Avenue Westfield	June 30, 1991

Westfield State College

	<u>Date Appointed</u>
President: Dr. Ronald L. Applbaum	February 1, 1990
Senior Vice-President, Academic Affairs: Dr. William H. Lopes	July 31, 1988
Senior Vice-President, Student Services: Dr. Sarah L. Light	July 1, 1985
Vice-President, Administration and Finance (Acting) Mr. Garreth J. Lynch	October 1, 1979
Treasurer and Budget Director: Mr. Paul J. Mei	November 22, 1970
Director of Fiscal Affairs: Mr. Philip A. Kennedy	December 28, 1980

Westfield State College is a four-year institution of higher education. The college offers courses leading to degrees of Bachelor of Arts, Bachelor of Science, and Bachelor of Science in Education. Special opportunities exist such as the exchange program, in which selected students may attend another college for a semester, and a program for study abroad, in which qualified students spend an entire academic year at a recognized foreign university.

The college's Division of Graduate Studies and Continuing Education provides academic opportunities for adults of varying ages, interests, and situations in life. Students in this division may work toward a degree or may simply take courses to meet a special need or interest.

Westfield State College is located on Western Avenue, Westfield, on 227 acres of land assessed at \$2,979,900 that is owned by the Commonwealth. The college maintains three classroom buildings, seven dormitories, a student union/library, a laboratory school, and an Astroturf track and field area, which has lighting for nighttime use. These buildings are owned by either the Commonwealth or the Massachusetts State College Building Authority and have a total assessed value of \$27,453,200.

#### Positions Bonded

All employees are bonded in the amount of \$100,000 under a blanket bond maintained by the college.





